Macroeconomic policies to increase the wage share and to reduce wage dispersion

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Income Inequality, Labour Market Institutions and Workers Power

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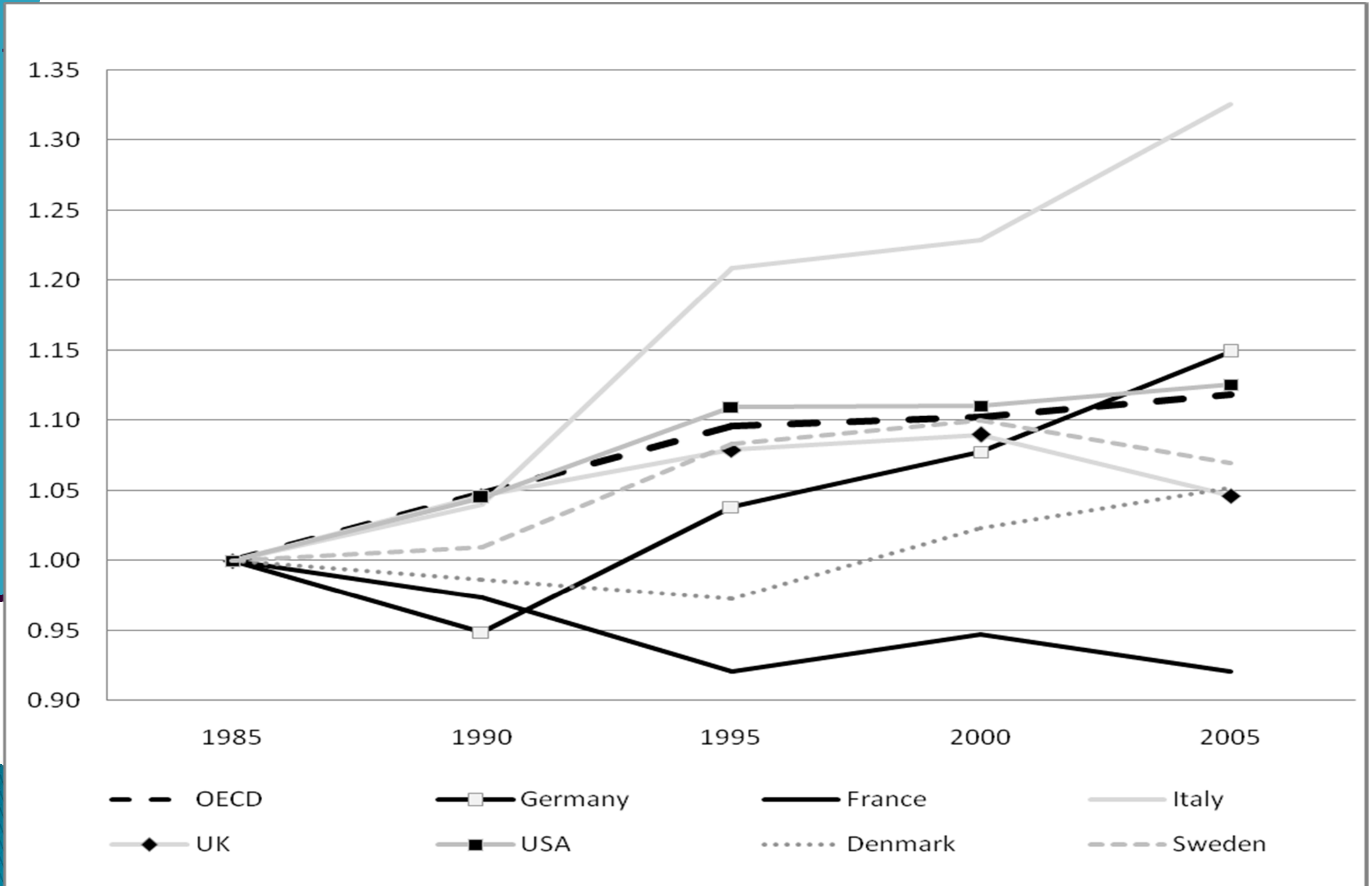
Factors which determine income distribution

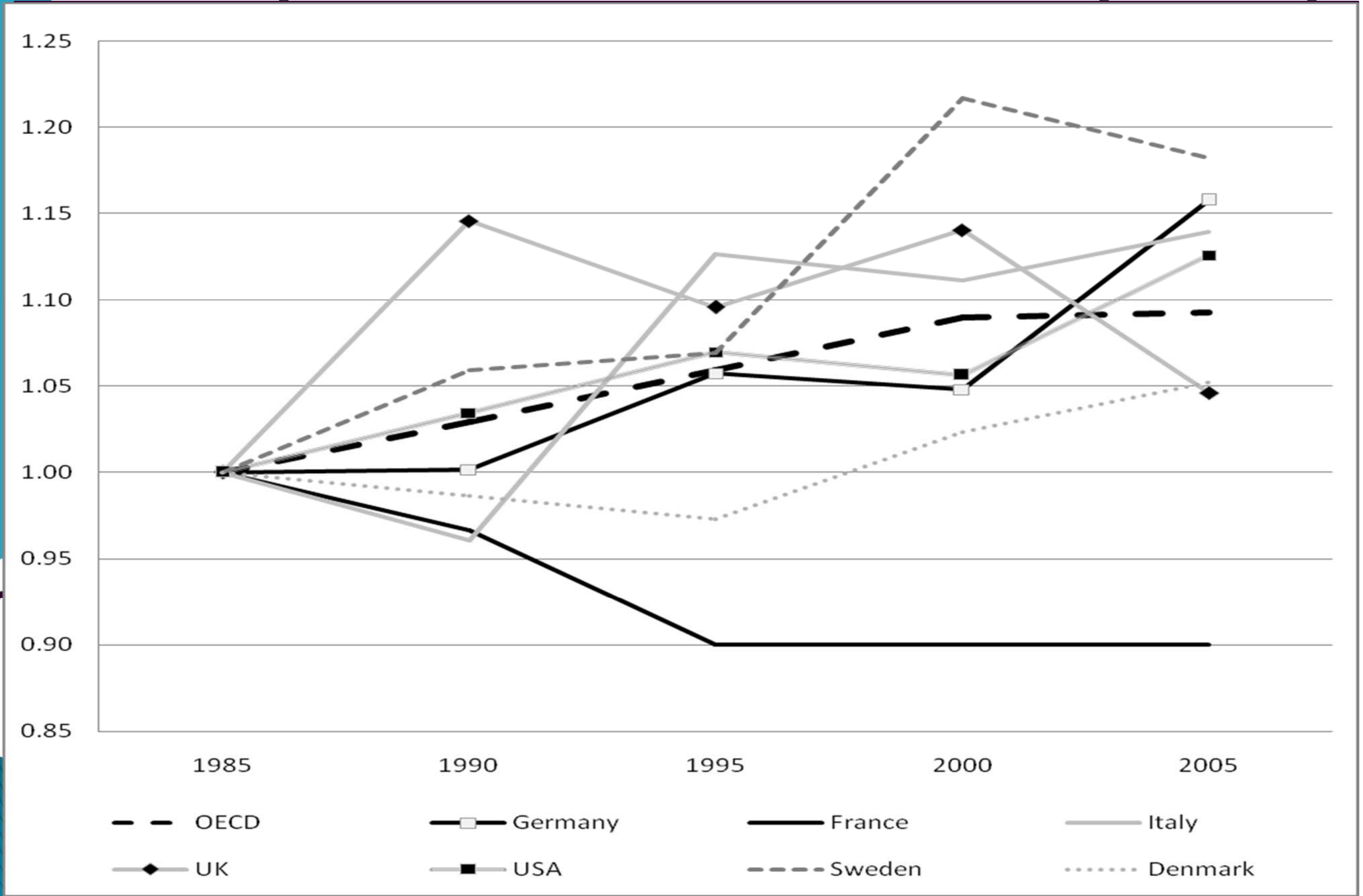
- Functional income distribution
- Wage dispersion
- Distribution of profits
- Government redistribution policies
- Unstable economic development with high unemployment

Market Income Inequality

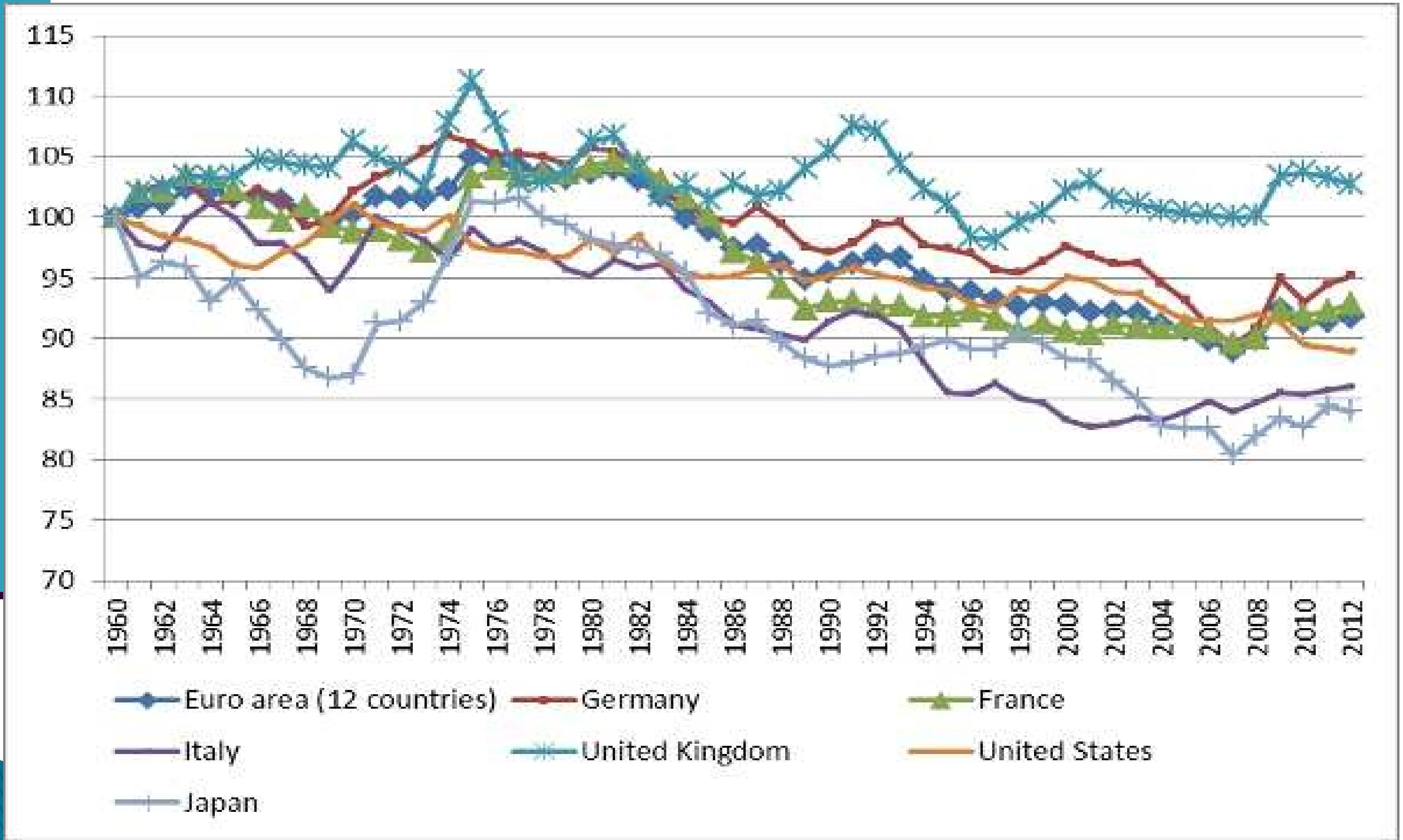


Source: OECD 2008.

Disposable Income Inequality



Adjusted wage shares, index value (1960=100)



Source: OECD statistics

Main factors for higher income inequality

- Deregulation of financial markets
  - Domestic financial markets
  - International financial markets / deregulation of capital flows
  - Shareholder value corporate governance system

- Deregulation of labour markets
  - Labour market reforms
  - Weakening the unions
  - ….
- Privatisation, tax- und transfer policies,….

Functional income distribution

- Wage share decreased in almost all countries
- Main factors to explain the changes
  - Permanent pressure from financial markets to follow short-term profit maximisation (financialisation)
  - Weaker unions which lost power to influence wage dispersion in a firm, bonus payments, investment decisions, etc.
  - Rent-seeking, for example no transparency in product and financial markets, collusion, etc.
  - Privatisation

How to increase the wage share?

- Strengthening of unions and change of corporate governance systems
- Radical control of financial system – a "new" New Deal in the financial system
- All policies to reduce rent-seeking
  - Competition policies
  - Transparency in goods and financial markets
  - Standardise for example products in financial markets
- Increase the role of public companies for example to deliver public goods

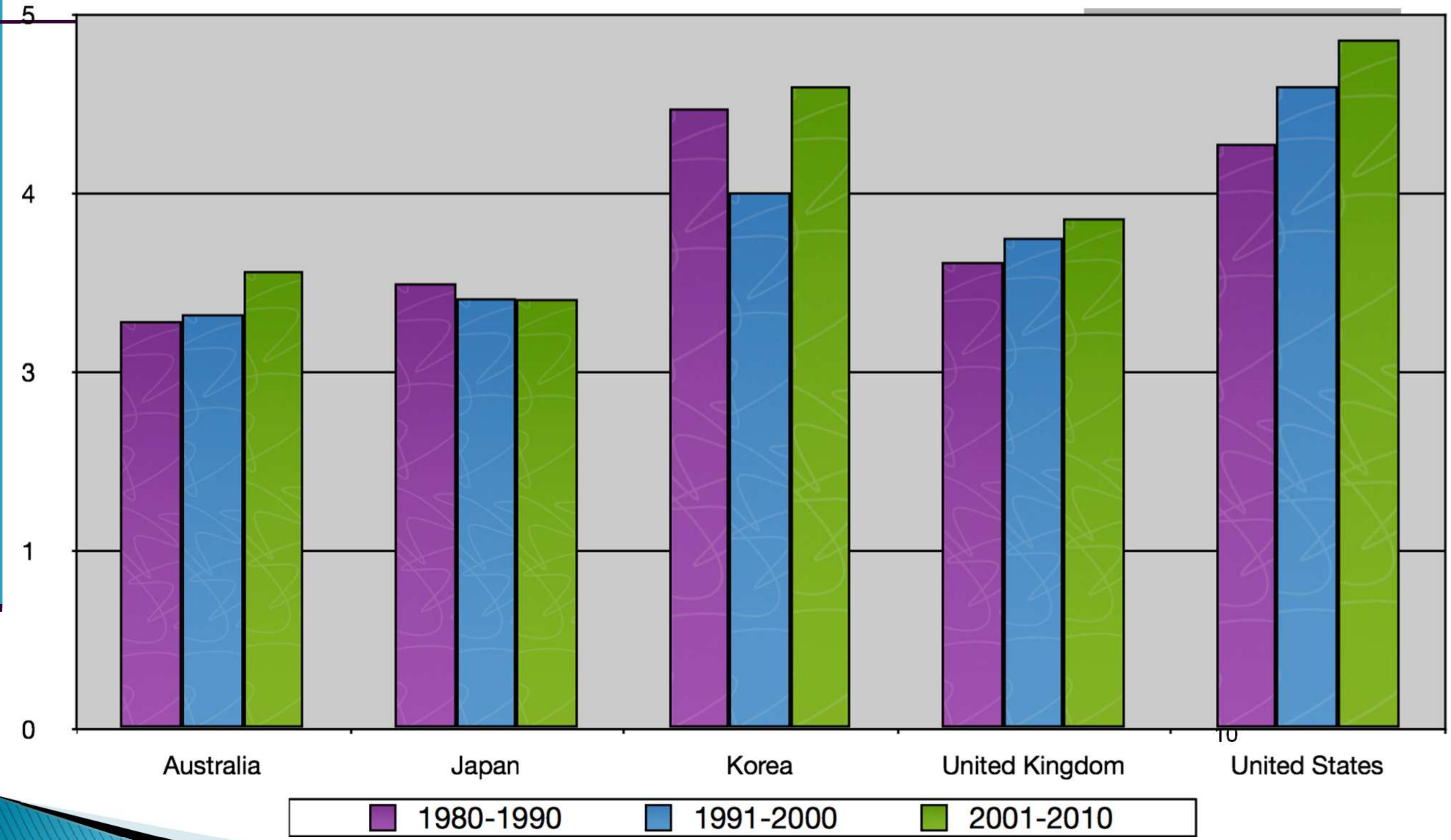
Wage dispersion

- In most countries wage dispersion increased – but there are exceptions

- OECD calculates that between mid-1980s and mid-2000s 70 per cent of change in market income distribution depends on changes in wage dispersion*

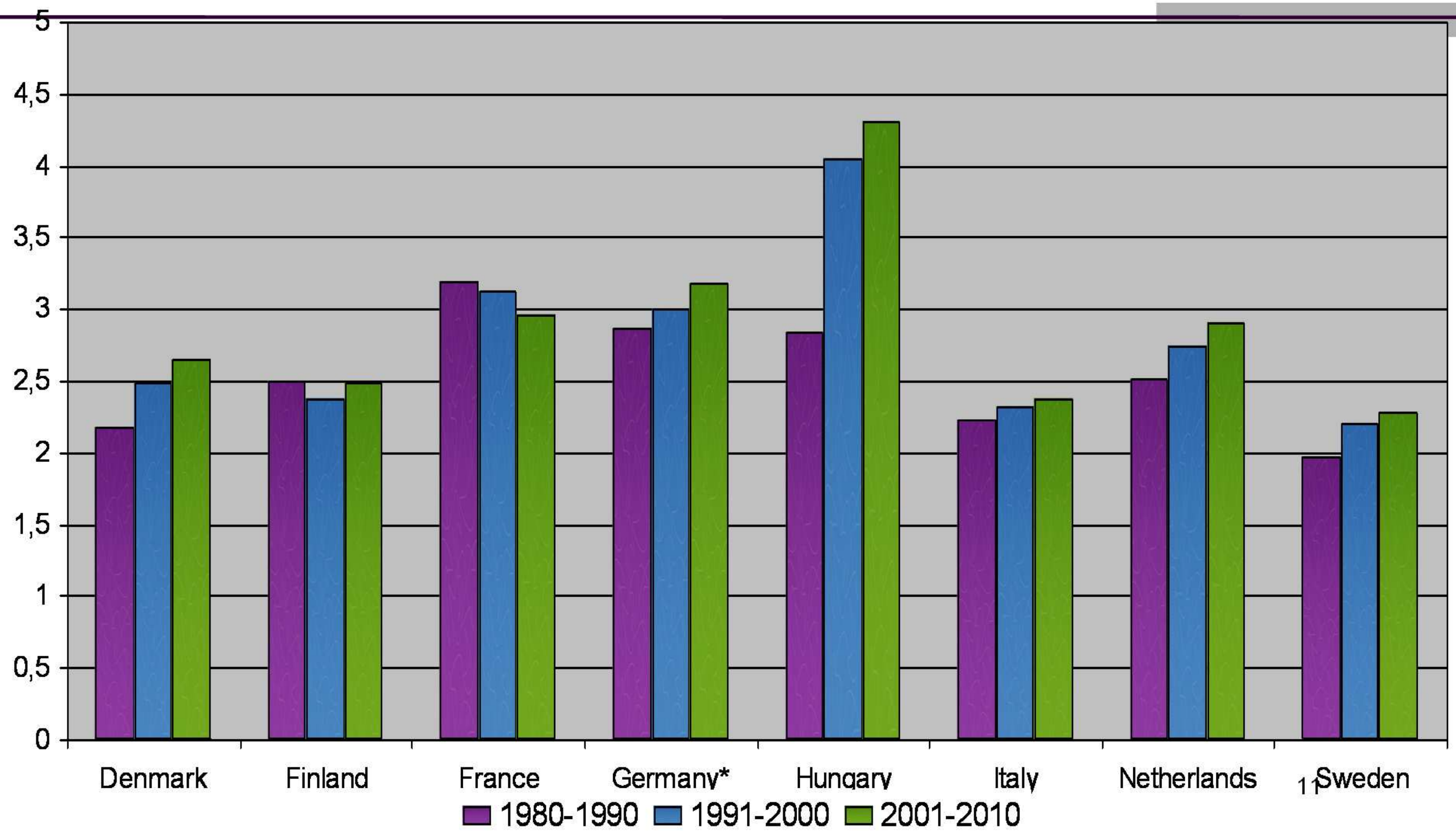
*OECD (2011), Divided We Stand: Why Inequality Keeps Rising, OECD Publishing.

Earnings Dispersion, Market Income 90/10 ratio



Source: OECD earnings database 2013.

Earnings Dispersion, Market Income 90/10 ratio Europe



- Source: OECD earnings database 2013.

Factors explaining wage dispersion

- Policies to deregulate labour markets
- Decrease of union density
- Tendency in many countries to decentralise wage bargaining / breakdown of pattern bargaining, less extension mechanisms
- Insufficient use of statutory minimum wages

Literature

S. Dullien, H. Herr Christian Kellermann, Decent Capitalism. A Blueprint for Reforming our Economies, London: Pluto Press 2011.

H. Herr, M. Kazandziska, Macroeconomic Policy Regimes in Western Industrial Countries, London: Routledge 2011.

H. Herr, Making an Unstable Financial System Work: Reform Options, in: International Journal of Labour Research, Vol. 3, 2011, 133-156 (online verfügbar).

Factors explaining wage dispersion

- Offshoring (shift productions abroad)
- Outsourcing inside the country / regulation arbitrage
- Economic shocks which affect only parts of the work force, for example exchange rate shocks

How to reduce wage dispersion?

- Active use of statutory minimum wages
- Wage negotiations on sectoral level (no firm level wage negotiations)
- Extension mechanisms
- Force all firms to join employer associations (Austria)

How to reduce wage dispersion?

- Control offshoring
  - Union involvement in decision making / change corporate governance system
  - Increase costs of shifts in production
- Prevent regulation arbitrage inside a country
  - Reregulation of labour markets (for example restrict temporary work)
  - Comprehensive coverage of wage bargaining
  - Statutory minimum wage policy
  - Extent coverage of collective bargaining to firms which take over outsourced tasks

Unemployment and income inequality

- Higher unemployment increases inequality because unemployed get lower or no income

- Economic crises and economic shocks increase wage dispersion

How to create full employment and reduce economic shocks?

- Creation of a regulated type of capitalism, a "Decent Capitalism"
- Demand management
  - Stabilisation of investment demand by "socialising investment" (Keynes 1936)
  - Create sufficient income based consumption demand by an equal income distribution an good social safety net
  - Sufficient anti-cyclical fiscal policy
- Global governance
  - Stabilisation of exchange rates
  - Prevention of big current account imbalances

Government redistribution policies

- Tax system
- Government transfers
- Social safety net
- Sufficient delivery of public goods like education, housing or public transport

Main neoclassical explanation for changes in income distribution

- Marginal productivity of labour increased less than marginal productivity of capital

- Based on technical changes skilled-workers could increase wage in relation to unskilled workers (all based on marginal productivity of workers with different skills, etc.)

- Globalisation increases wage dispersion

Thanks

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